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BY EMAIL ONLY

24 June 2022

Dear Heather,

ElecLink response to Ofgem call for input following first Locational Pricing Assessment workshop

ElecLink welcomes the opportunity to respond to Ofgem's call for input following the first Locational Pricing Assessment stakeholder workshop on 26 May 2022.¹

This response is provided on behalf of ElecLink Limited. ElecLink is a 1000MW HVDC electricity interconnector between Great Britain and France, which commenced full commercial operations in May 2022.

Summary of response

In summary, ElecLink supports the commencement of this valuable analysis. However, given the significance of the reforms being considered, we emphasise the importance of ensuring that the full range of relevant considerations is taken into account. We highlight two key points in this respect:

First, we urge Ofgem to ensure that all viable alternative wholesale market models are given equal consideration. While we were not present at the first stakeholder workshop itself, we are aware that NGESO has advocated for the introduction of a nodal pricing model in particular, as opposed to a zonal model or a decision to maintain the status quo.² While there are certainly potential benefits to this model in principle, given that Ofgem's Locational Pricing Assessment remains at an early stage, this preference from NGESO should not unduly narrow Ofgem's consideration of the other feasible alternatives as this workstream progresses.

¹ Locational Pricing Assessment call for input - <https://www.ofgem.gov.uk/publications/locational-pricing-assessment>

² See for example 'Net Zero Market Reform – Phase 3 Assessment and Conclusions,' available at <https://www.nationalgrideso.com/document/258871/download>

Second, while the scope of this assessment is broad, the published summary of the first workshop indicates that consideration has not yet been given to the impact that more granular locational pricing would have on operational interconnectors and cross-border flows, nor on the development of new interconnectors. Interconnectors are widely accepted as playing a key role in the UK's achievement of its decarbonisation ambitions, so should be kept firmly in mind when any significant wholesale market reform is being considered.

In providing this initial input we have relied on publicly available information arising from the first workshop, for which we are grateful. However, as this workstream develops, it may become difficult to provide fully informed feedback on the basis of these summaries. As such, we would very much welcome the opportunity to join the workshop discussions themselves and would encourage Ofgem to invite all GB interconnectors to do the same.

Ofgem identified three areas for stakeholder response in its call for input, namely:

1. The key opportunities associated with introducing more granular locational pricing in GB;
2. The key implementation challenges, risks and mitigations; and
3. The proposed approach to modelling zonal and nodal market designs.

The remainder of this response will briefly address each topic directly.

1. The key opportunities associated with introducing more granular locational pricing in GB

A more granular locational pricing model would in principle appear likely to increase market efficiency and provide clearer price signals to market participants than the status quo. As such, ElecLink welcomes this assessment of the opportunities presented by this potential shift, noting the pivotal stage in the UK's transition to a net zero economy.

However, as noted above, the fact that this workstream comes at such a critical point in the development of the GB energy sector also serves to emphasise the importance of taking all potential options into account. In particular, as noted above, this includes continuing to assess the opportunities and risks posed by a zonal pricing model and maintaining the status quo, as well as nodal pricing.

2. The key implementation challenges, risks and mitigations

While more granular locational price signals may well deliver enhanced market efficiency, the radical market shift required to attain the more ambitious models currently under consideration would risk undermining investor confidence, both (a) because of the scale of market reform involved, and (b) due to the difficulty in accurately modelling a higher level of granularity of wholesale prices. This is a particularly significant consideration as the UK progresses through a critical decade in the achievement of our net zero ambitions, where significant private investment into the GB energy sector will be required.

In this context, Ofgem should remain mindful of the potential drawbacks of a shift to either model of more granular locational pricing and we emphasise the need to continue to carefully weigh these implementation risks alongside the benefits identified as this workstream progresses.

3. The proposed approach to modelling zonal and nodal market designs

In order to fully assess the impact of a shift to more granular locational pricing in GB, it is necessary to take into account the significant and expanding role of interconnectors in the GB energy system. However, as above, the summary of the first stakeholder workshop appears to indicate that the

discussion held did not address the potential impact on operational interconnectors or cross-border flows. This will be a key element to address in future workshops and in any further analysis.

Similarly, given the structure of the wholesale markets to which GB is interconnected, it is particularly important to understand the interaction between a nodal pricing market and those following a bidding zone model. Consideration should also be given in this regard to the impact these proposals would have on the development of more efficient capacity allocation arrangements between the UK and the EU, as required by the Trade and Cooperation Agreement.

More broadly, given the importance placed by the UK Government on the development of additional interconnection, any analysis undertaken around the introduction of more granular locational pricing should consider the impact of such a shift on investment into new interconnectors. This analysis would be particularly timely given the expected launch of a third cap and floor application window in 2022, as well as the growing regulatory activity in relation to multiple purpose interconnectors and wider North Seas development.

Concluding remarks and next steps

ElecLink welcomes the opportunity to provide this initial input into such a valuable and timely project. Looking ahead, we emphasise the need to ensure that appropriate consideration is given to the likely impact of any market reform on GB interconnection. We would very much welcome the opportunity to participate in future stakeholder workshops and would encourage Ofgem to seek similar engagement with the other GB interconnectors in these discussions.

If you have any questions regarding this response or would like to arrange a call to discuss this further, please contact the ElecLink Regulation team - regulation@eleclink.co.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Leo Michelmore'.

Leo Michelmore

Regulatory Advisor